SBI RESEARCH

ECOWRAP

FISCAL DEFICIT FOR FY23 COULD BE IN THE LOWER END OF 6-6.5%:GROSS BORROWINGS OF CENTRE AT RS 12 LAKH CRORE

Issue No. 55, FY22
Date: 19 Jan 2022

After the economic jolt in FY21 due to COVID-19 outbreak, India's economy is slowly recovering. Thus, the main objective of the budget should be to create an environment by creating an enabling condition by giving higher weightage to short term stabilization policy rather than long term policy. The budget should also allow for very gradual fiscal consolidation. For FY23, the fiscal consolidation should remain limited to 30-40 bps from the current fiscal. Assuming that the Government keeps the expenditure growth at 8% over FY22 estimates at Rs 38 lakh crore in FY23 and receipts (minus borrowing and other liabilities) would grow by ~10.8%, **it would lead to fiscal deficit of around Rs 16.5 lakh crore or 6.3% of GDP in FY23**. If disinvestment of LIC passes through in FY22, Government might be ending fiscal with a large cash balance of Rs 3 lakh crore. This can come handy in supporting a large part of government fiscal deficit without taking recourse to market borrowings. We caution that any new taxes like wealth tax or others at this point could do more harm than benefit .

Against this background, we thus believe net market borrowing of the Centre will be around Rs 8.2 lakh crore and with repayments of Rs 3.8 lakh crore, gross borrowing are expected at Rs 12 lakh crore (73% of the FD). **Interestingly, in FY22, RBI has done OMOs of around Rs 2.6 lakh crore that did support a large Government borrowing programme without disruptions. In FY23, sans the support of such OMOs, but with Rs 1.5 lakh crore expected through inclusion in bond index and credit off take also picking up recently, there will still be northward pressure on bond yields. Unless EM bond index announcement happens in budget with first inflows starting in H2FY23, bond yields are in for major realignments in FY23. The overall gross borrowings by Centre and States is likely to be around Rs 21 lakh crore (Rs 19.7 lakh crore in FY22) and net borrowings around Rs 14.8 lakh crore (Rs 15 lakh crore in FY22). However, the movement in bond yields may also have a sobering impact given the proposed tweaks by RBI regarding bank's investment portfolio.**

Regarding sector-specific suggestions, 6.33 crore MSME units in India contribute ~29% to India's GDP, employing over 11 crore workers. Credible source to verify cashflow and seamless access for Banks to GST 4 / ITR on real-time basis should be allowed for lending to SMEs. Separately, availability of real time information on a single window by Government through a regulatory architecture from various sources viz. Income Tax, Ministry of Corporate Affairs (Registrar of companies), Customs, Land Records, SEBI, Credit Information Companies, Banks and Courts (for legal cases if any) for a company/ borrower, will significantly enable informed credit decision in future for all borrowers.

The pandemic has created a renewed interest in the MSME space with a behavioral shift in bank lending to such units surpassing all expectations on the back of ECLG scheme launched by the Government. The ECLG scheme must be extended with necessary policy tweaks till FY23. This will also enable completion of the entire targeted Rs 4.5 lakh crore of credit flow under this scheme. Additionally, given the little success of federal guarantee scheme of CGTMSE in anchoring SMEs in its two decades odd existence, budget should explore reorienting the institution along the lines of US-SBA as a facilitator towards starting and expanding business by SMEs. Such an agency should be singularly entrusted with a complete end-to-end digital platform with a primary focus on cash flow-based lending by financial intermediaries.

As on 31st March 2021, the data suggest that KCC loans for ASCBs aggregated to about Rs 7.53 lakh crore through 7.3 crore active KCC card users, which constitute about 55% of the total agricultural loans outstanding by all the banks. It is intriguing that access to KCC loans is renewed every year only after the farmer has paid both the principal and interest amount in totality. We propose that renewal of KCC loans of small and marginal farmers and for loans of other categories of farmers for amounts up to Rs 3 lakhs, the payment of interest should be an enough condition for renewal. Additionally, the interest subvention benefit which at present accrues only for crop cultivation and working capital loans for allied agricultural activities can be extended to cover term loans for investment credit purposes availed by small and marginal farmers without increasing the overall loan limit . This will spur investment credit for minor purposes on the field including drip irrigation, scientific mulching, land development for rainwater harvesting, water pumps, water shed management etc at the individual farm level. The above measure has the potential to also reduce credit cost for banks considerably on KCCs as NPAs can be prevented more easily and if the above suggestion is agreed upon by RBI, interest rate on KCC loans can be further reduced.

BUDGET 2022-23: FISCAL ARITHMETIC

- After the economic jolt in FY21 due to COVID-19 outbreak, India's economy is slowly recovering. Hence, the main objective of the budget should be to create an environment that will give further impetus to growth by creating an enabling condition by giving higher weightage to short term stabilization policy rather than long term policy. The budget should also allow for very gradual fiscal consolidation.
- As per the first advanced estimates, real GDP will grow by 9.2% in FY22, and nominal GDP growth is expected at Rs 232.1 lakh crore (+17.6%). For FY23, real GDP growth is likely to be around 8% and with deflator expected at 5.0%, nominal GDP would grow by 13.0% to Rs 262 lakh crore in FY23 budget.
- Monthly data from CGA indicates that overall expenditure has already reached 59.6% of the BE till Nov'21, with revenue expenditure at 61.5% of BE and capital expenditure at 58.5% of BE. This is lower than what was achieved last year. Capital expenditure has been falling for the past two months. In Oct-Nov'21, the government's expenditure dropped 41.21% to Rs 44,279 crore compared to Rs 75,322 crore in the same period a year ago.
- Meanwhile, higher revenues of the Government (69.8% of the BE so far) enabled lower fiscal deficit at 46.2% of the BE till Nov'21, compared to 135% of BE till Nov'20. According to our calculations, total receipts of the Government would be higher than BE by around Rs 2.5 lakh crore.
- Even if we consider the additional spending announced by the Government in early Dec'21, fiscal deficit of the Government still comes at Rs 15.80 lakh crore or 6.8% of the GDP.
- For FY23, the fiscal consolidation should remain limited to 30-40 bps from the current fiscal. Assuming that the Government keeps the expenditure growth at 8% over FY22 estimates at Rs 38 lakh crore in FY23 and receipts (minus borrowing and other liabilities) would grow by ~10.8%, it would lead to fiscal deficit of around Rs 16.5 lakh crore or 6.3% of GDP in FY23.
- If LIC IPO passes through in FY22, Government might be ending fiscal with a large cash balance of Rs 3 lakh crore, assuming Rs 1.0-1.5 lakh crore in refinancing of FD. This would clearly be a enabler for the Government as far as reliance on dated securities are concerned.

Fiscal Estimates

Rs lakh crore	FY22 BE	FY22 (SBI)	FY23 (SBI)	% yoy
GDP	222.9	232.1	262.2	13.0
Receipts (Rev+Cap-Borrowing)	16.9	19.4	21.5	10.8
Tax Revenue	15.4	18.0	20.0	11.1
Non-tax Revenue	2.4	3.3	4.5	36.4
Capital Receipts - Borrowing & other liabilities	1.5	1.4	1.5	7.1
Expenditure	34.8	35.2	38.0	8.0
Fiscal deficit	15.07	15.80	16.5	-
Fiscal Deficit (% of GDP)	**6.8**	**6.8**	**6.3**	

Source: SBI Research

Market Borrowings (Rs lakh crore)

	FY21 (RE)	FY22 (Estimates)	FY23 (Estimates)
Centre			
Gross Borrowing	12.8	11.9	12.0
Repayments	2.3	2.6	3.8
Net Borrowing	10.5	9.3	8.2
State			
Gross Borrowing	8.7	7.8	9.0
Repayments	1.5	2.1	2.4
Net Borrowing	7.2	5.8	6.6

Source: SBI Research

- We believe net market borrowing of the Centre will be around Rs 8.2 lakh crore and with repayments of Rs 3.8 lakh crore gross borrowing are expected at Rs 12 lakh crore (73% of the FD).
- The states are expected to borrow at least Rs 9 lakh crore on a gross basis and Rs 6.6 lakh crore on a net basis.
- The overall gross borrowings by Centre and States is likely to be around Rs 21 lakh crore (Rs 19.7 lakh crore in FY22) and net borrowings around Rs 14.8 lakh crore (Rs 15 lakh crore in FY22).

Sector-wise Budget Recommendations	
MSMEs	• Extend the ECLG scheme with policy tweaks till FY23 as renewed uncertainty due to Covid impacting restoration of normalcy. This will enable completion of the entire targeted Rs 4.5 lakh crore of credit flow under this scheme. • The setting up / reorienting of an institution along the lines of US Small Business Administration as a facilitator towards starting and expanding business by SME. Such an agency should be singularly entrusted with a complete end-to-end digital platform with a primary focus on cash flow-based lending • Build a government supported platform for operationalization of Web portals (like TReDS) to bring MSMEs closer to OEMs/ raise institutional finance for ease of supply chain funding requirements. Various buyers and sellers can be connected through the platform and may work for mutual benefit. For this GST network may be linked for receivables/ invoice discounting • Special incentives for cashless transactions may be extended to MSMEs to promote digital culture. These incentives can be linked to percentage of turnover routed through digital platforms • Subsidy based loan schemes for small MSME units with a cap of Rs 3 lakh on subsidy in line with subsidy presently provided under Agri Segment. This can fuel growth in secondary sector • Access to data of CBDT, GST portal through API to all banks. (This is now available to psbloansin59minutes.com site only)
Agriculture	• KCC to be positioned as a livelihood card for small and marginal farmers • Regulatory changes to allow interest servicing alone for renewal of KCCs, as applicable for SMEs • Reintroduce the farm laws with necessary changes by giving states the autonomy to undertake the necessary farm sector reform. A model law may be suggested in line with model Shops and Establishment Act for retail sector • Create an Agriculture Tech Fund for improving agriculture supply chain using Start Up India • Convert the Minimum Support Price to Floor Price of Auction on National Agriculture Market (eNAM) • Promotion of indigenous seeds and cattle breeds keep in view the climate adaption measures • More trains/air flights for transporting perishable items across states • Uniform Scale of Finance at the national level for all major crops and allied Agri activities with a band within which Banks can finance. One nation, one SoF • To launch Credit Guarantee Scheme (like CGTMSE for MSMEs) for Agri lending to increase share of "formal lending" to Agri sector • Creation of centralized data source linked to Aadhar/ PAN which includes data regarding landholding, crops grown, past sales at mandis etc.
Savings promotion	• Rationalize existing taxation structure on contractual savings to promote savings. At current savings are the financing of growth is not possible beyond the potential growth of 6%. • Under 80TTB interest income from deposits by senior citizen (Savings bank accounts, fixed deposits, recurring deposit accounts) up to Rs 50,000 is exempted from income tax. This threshold may be increased to Rs 1,00,000, which will have fiscal cost of only Rs 2000 crore (around 7 bps FD)
Universal Health Coverage	• Medical Savings account wherein a part of the advance tax goes to Mediclaim policy – thus enabling customers to take advantage of EMIS. A scheme to deduct Interest from Savings Account and pay towards Mediclaim policy can be thought of. • The total no of savings bank accounts in India is 130 crore (excluding the Jan Dhan accounts who are possibly covered in Ayushman Bharat). If we take the average balance in such amount (Rs 1215) as the insurance amount, the account holder can get up to Rs 50,000 as annual insurance cover that can be even tweaked to include medical expenses • The government should consider exempting health insurance products from GST, at least for all retail and health focused products. At a time when Governments are grappling with pandemic scenarios, they can look at making Health insurance more affordable

Sector-wise Budget Suggestions	
E-commerce/ retail trade	• Share of retail sector in exports is very small, less than 5%. We suggest that special export promotion scheme covering end-to-end solution be formulated • The retail trade policy must reward retail trade models that encourage make in India and vocal for local • The policy must create incentives for domestic platform to emerge and reduce the share of foreign funded platforms • The Government may consider legal measure to separate data aspect of the platform/retail business from sales to reduce the misuse of user data and prevent sellers for gaining dominant position in supply chain
Exports	• Automatic coverage of all exports under guarantee scheme • Dedicated portal for capturing international market opportunities/ business leads for export of goods and services from India
Real Estate	• The SWAMIH (Special Window for Funding Stalled Affordable and Middle Income Housing Project) Scheme could be extended to all stalled residential projects without monetary cap. The condition of net-worth positive projects should be continued • Residential real estate GST may be removed, which is currently at 5% now, as this will encourage buyers. Growth in this sector has multiplier effect on Indian economy
Manufacturing	• Extending PLI scheme to the labour intensive sectors • Interest subvention on loans for new manufacturing units • Incentives for MSME units, which bring down their cash transactions to say <10% • Infrastructure projects should also be incentivized on the lines of PLI scheme so as to attract Corporates to venture into infra projects
Legal Reforms	• Create a special fund to Legal Technology Start Ups • For long gestation projects the permissible D:E should be allowed till 9:1 with mitigation in the shape of pledge of more than 51% equity • Common Loan Documents-Standardization Across Banking Industry • Capital intensive infra lending, which have multiplier effect as catalyst to other industries, employment creation etc. to have special dispensation in terms of IRAC recognition norms, allocation of Risk Weight etc. • Mergers and acquisition have become order of the day and is a necessity for consolidation of industries. This is seen as great opportunity for Banks to fund both equity/debt part of such corporate restructuring, hence regulatory guidelines may be modified favourably • Resolution of stressed assets through NCLT to conclude max within 270 days which should also include appellate & any court intervention so as to restrict depletion of assets and eventually haircut suffered by banks • Law to ensure time bound debt recovery in non-NCLT cases, say max 6 months • Clarity in laws to ensure timebound enforcement of contracts/agreements • Bad loans pursued only against the defaulters from recovery point of view, and fixed timelines for action by law enforcement agencies with recovery-based incentives

Disclaimer: The Ecowrap is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in Ecowrap.

Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in,
gcea.erd@sbi.co.in
Phone:022-22742440
: kantisoumya